



E.ON MarketReport
June 2013

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Overview of May 2012 – May 2013

Welcome to the June edition of the E.ON MarketReport where we look in detail at the energy markets from May 2012 to May 2013.

This report provides an historical overview of the power, gas, oil, coal and carbon markets.

In addition the E.ON MarketReport contains month to month commentary and price movements for each of these individual markets.

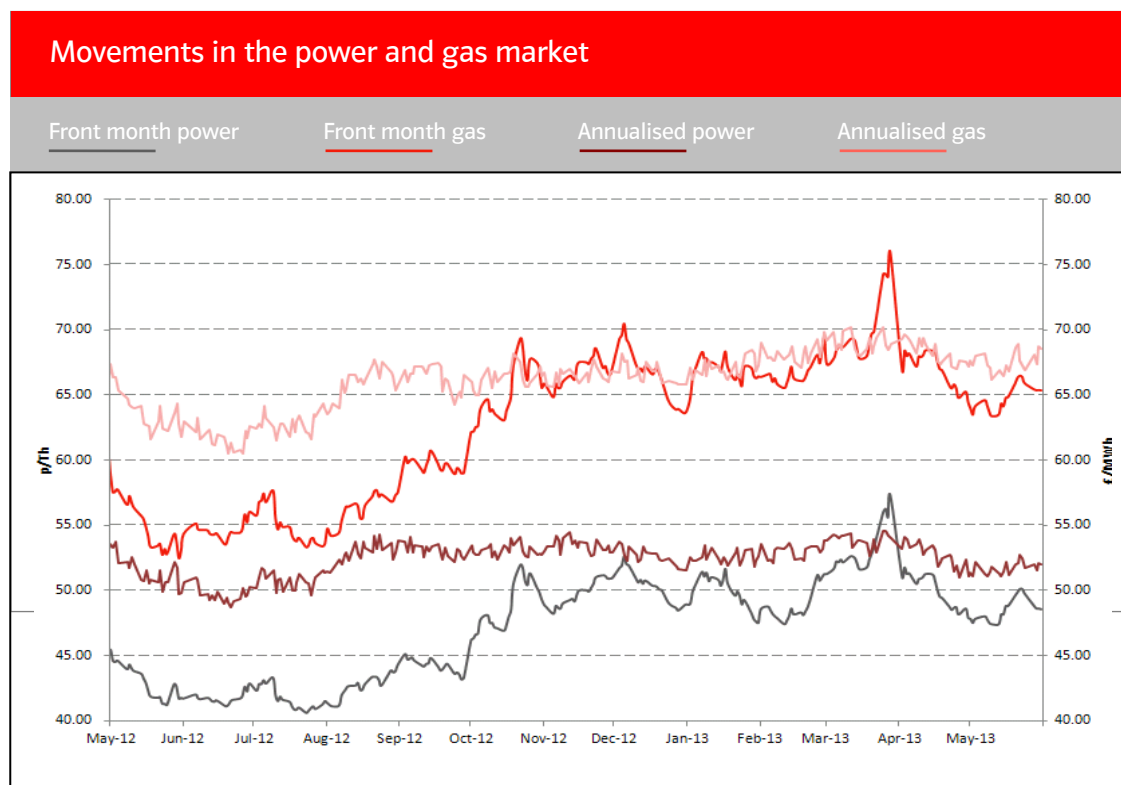
Last month in brief (May 2013)

Bearishness gave way to bullishness throughout the month as we saw the coldest May since 1996, this was reflected in the price as the front-month contracts traded up by around 2% for both Power and Gas.

As well as low temperatures we have also seen severe tightness on the gas system as maintenance has over-ran on some platforms which has led to other planned work being delayed or extended throughout the month with only the strong LNG supply providing any relief to the fuel mix.

Also, economic news from China, the US and Europe has influenced price movements as the momentum is being lost from economic stimulus programmes around the world which is shaking optimism that the global recovery is on track.

Power and gas



Change in prices from May 2012 – May 2013

The average front month power contract price in May 2013 was approximately 13% higher than May 2012.

The average front month gas contract price in May 2013 was approximately 18% higher than May 2012.

The average Oct'13 annualised power price in May 2013 was approximately 0.5% higher than May 2012.

The average Oct'13 annualised gas price in May 2013 was approximately 6% higher than May 2012.

Monthly movement

Front month power contract prices increased by approximately 2% over the course of May 2013, trading between a range of £47.40 - £50.10 / MWh

Front month gas contract prices increased by approximately 2% over the course of May 2013, trading between a range of 63.35p – 66.45p / therm

Oct'13 annualised power prices increased by approximately 1% over the course of May 2013, trading between a range of £51.06 - £52.72 / MWh

Oct'13 annualised gas prices increased by approximately 1% over the course of May 2013, trading between a range of 66.16p – 68.88p / therm

Month by month review

May 2013	Both the prompt and far curve have seen a change from being bearish to bullish over the course of the month on the back of supply tightness on the gas system due to ongoing & over-running maintenance work, concerns over summer demand due to the lower than seasonal norm temperatures throughout May and unplanned outages at nuclear plants. The nuclear outages have meant that power has had to track gas as dependency on gas fired generation has increased
April 2013	An improved supply picture and a return to seasonal average temperatures allowed prices on the near-curve to trade lower, while longer dated contracts attracted bearishness from an improved Sterling to Euro exchange rate and weak global economic prospects.
March 2013	Lower than average seasonal temperatures, which were prolonged throughout the month, led to a sustained increase in gas demand. Volatile supplies from Norway and a lack of LNG led to UK storage stocks being heavily relied upon to meet demand. Stocks were soon reduced to around 9% fullness adding serious risk into prices. Power prices tracked the upward trend on gas, as temperatures were expected to remain low.
February 2013	Temperatures out-turned below seasonal average leading to an increase in demand and higher prices. Strong buying interest on the UK curve was noted when the sterling lost ground against the Euro following the downgrading of the UK's AAA credit rating. Depleted gas storage and a lack of LNG cargo caused some nervousness around supply, especially if another cold-snap was to hit the UK in the short-term.
January 2013	Temperatures dropped during January with snow and freezing weather conditions hitting most parts of the UK. Despite some outages in the Norwegian gas fields which impact gas flows into the UK, the system generally coped pretty well with demand, and as a result wholesale price increases were capped. The front month contract (Feb-13) moved down

during its final week before expiry, however, annualised contracts were held firm by a strong Brent oil performance.

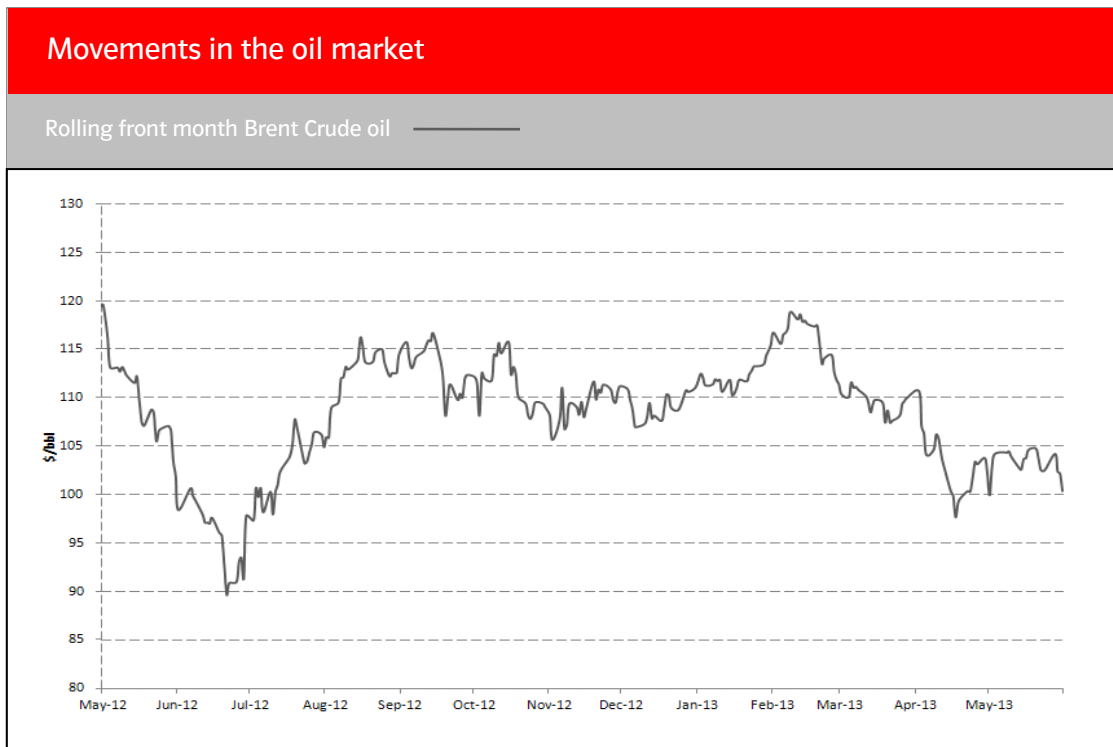
- December 2012** A turn-around on temperature forecasts helped all near-term gas and power contracts trade lower. The revised forecasts coupled with good gas supplies from Norway and the via the Interconnector created bearishness within the gas market, which filtered through into UK power prices. As the holiday period got closer traded volumes became very thin and annualised contract drifted lower as a result. Bearish fundamentals outweighed bullish oil as the main driver over the Christmas period.
- November 2012** November began on a bearish note, as super-storm Sandy shutdown the east coast of America and depressed demand in the region. The closure of the New York stock exchange also took a chunk of liquidity out of the global commodity markets. This fed through to oil prices, which supported losses on UK gas and power. Sentiment soon reversed and gains were recorded for the majority of November. Driving prices higher were lower LNG cargoes and downward revisions to temperature forecasts for the UK and mainland Europe. The fear of a cold-snap in Q4-12/Q1-13 keeps a premium in prices, despite UK storage being at around 95% fullness. Longer dated seasonal contracts were relatively flat trading within a very tight range.
- October 2012** Towards the end of October the market's attention was firmly on the front end of the wholesale curve, as weather forecasts suggested colder temperatures were approaching and concerns over LNG availability & Norwegian gas flows increased. As a result, front month gas price gained by around 10% and power 12%. Longer dated annualised contracts decoupled from a soft Brent Oil market and were held firm by the strong performance on the front month prices. Electricity prices were primarily driven by bullish Gas, although continued weakness in Coal markets would have limited the gains.
- September 2012** Gas & Electricity prices were generally bearish throughout September and traded down by around 3% over the course of the month. The main driver behind the losses was weak economic sentiment following disappointing Chinese manufacturing data and rising Oil stocks in the US, indicating a slowdown in global energy consumption. Expectations that Saudi Arabian Oil production will remain at record high levels helped lower prices. Going into the winter, coal is expected to remain the fuel of choice for power generation given its profit margin over gas. Continued downward pressure on coal prices is adding to the bearish trend for UK electricity prices.
- August 2012** Oct-12 annualised power contracts gained by around 6% over the course of the month, driven mostly by strong Brent Oil & rising European Carbon. Brent Crude continued to play a key role in driving prices and during August supported most European energy markets. Off-setting the gains were expectations of higher LNG availability within Europe and the UK during September. This is due to lower demand from Asian where prices have crashed.
- July 2012** UK gas prices started to show disconnect from Brent Crude Oil, which is usually a key driver for longer dated gas contracts. A decrease in demand within the Asian market for LNG has lowered the price and offered downward support to UK gas prices. The resolution of Norway's off-shore gas and oil production strike allowed prices to move down from some initial gains that were factored in when the strike first escalated.
- June 2012** Against a backdrop of comfortable fundamentals in regard to supply and demand, and continued macroeconomic concerns within the Euro zone, UK power and gas prices continued to be traded down throughout the month. Weakness in crude oil, which hit an 18-month low in June has continued to

be the main driver for gas and power. Some resistance was met for near-term front month contracts, as volatile gas flows from Norway and wet weather lifted the price.

May 2012

Discussions over Greece and Spain have caused macroeconomic sentiment to sink across Europe and the UK gas and power curves were no exception as front-month and annualised contracts saw month-on-month losses. On the near curve prices fell in line with lower gas demand due to warmer temperatures and high gas flows from Norway, while further out risks to the UK as a result of the Euro zone crisis were highlighted by the Bank of England as it cut its growth forecast for the UK this year from 1.2% to 0.8%.

Oil



Change in prices from May 2012 – May 2013

The average front month oil contract price in May 2013 was approximately 6% lower than in May 2012.

Monthly movement

Front month oil prices increased by approximately 0.5% over the course of May 2013, trading between a range of \$99.95 - \$104.80 / bbl

Month by month review

May 2013

Brent crude front month future contract has trended down in May as weak economic data from China and the expectation that the United States Federal Reserve will begin scaling back their current monetary stimulus has dampened confidence in risky assets such as oil. In addition, Europe's continued struggle to provide a signal of economic recovery is reducing optimism.

April 2013	The benchmark front-month oil contract traded lower by 6% over the course of April, driven by weak global economic indicators, particularly from Europe and Asia, coupled with an on-going good supply situation leading to downward movement.
March 2013	Oil prices reached a three month low on fears of further turmoil in the Euro zone, as Cyprus announced a plan to tax bank accounts as a pre-condition to an EU/IMF bailout. This weakened the Euro pushing oil to the downside. Prices did receive some upward support from upbeat employment data in the US and better than expected manufacturing data from China.
February 2013	Oil prices continued to rally for a large part of February, driven by on-going political tensions and better than expected trade data from China. Prices then dropped by around \$2 as monetary stimulus in the US lost ground.
January 2013	January was a strong month for the European benchmark oil contract. Brent Crude oil gained by around 2% over the course of the month driven by positive economic data from Germany, China and the US. Iran's activity around launching a rocket into space was seen as a test for long-range missile capability and risk around middle-east tension would have held prices firm.
December 2012	Over December the direction of Brent Oil has been dominated by talks around the US 'fiscal cliff' and whether the US Federal Reserve will provide monetary stimulus to the world's largest oil consumer. The outcome of talks between President Obama and the US law makers will be pivotal on Brent's near-term direction. On the supply side, continued mid-east tensions, primarily around the Iranian nuclear programme and renewed Israeli threats of air strikes supported prices, as supply risk is factored in.
November 2012	Global Oil and commodity markets were steady ahead of the US presidential election, as investors held positions before the official election result. This coupled with the shut-down of the US east coast in the wake of devastation caused by Hurricane Sandy allowed Brent prices to drift lower. For the rest of the month Brent oil continued to be pulled in opposite directions by strong bullish and bearish factors. Strong upward support was found from military conflict in the middle-east between Israel and Palestine adding supply risk into Oil prices, while Bearishness came from weak Euro zone data, including the downgrading of the French AAA credit rating and announcements surrounding the EU officially being back in recession. This caused Brent to trade within a narrow range throughout the month.
October 2012	Brent Oil prices jumped on escalating tensions between Turkey and Syria, as shelling along the border intensified. Later in the month prices eventually eased a little following a release of data showing a higher than forecast build-up in US Crude stockpiles. The data suggested that US stocks were 46.6mbbl above seasonal norm.
September 2012	Over the course of the month (01 - 24 Sept) front month Brent lost almost \$6/bbl or 5% in value after industry data showed China's manufacturing sector continued to contract and a rise in US Crude stocks pressured prices downward. The global market also responded to Saudi Arabia's pledge to keep Oil production at record highs to force the price of the Benchmark grades down. Despite all this over-riding bearishness there is still volatility within the market, as Middle East tensions threaten supplies and North Sea production continues to cause anxiety.
August 2012	Brent Oil traded over \$116/bbl during the middle of August recording the highest closing price since May this year. North Sea Oil field maintenance reduced output and tightened supply and further support came from the renewed geopolitical tensions in the Middle East as Israel is preparing

military action against Iran. The conflict in Syria also has escalated as Saudi Arabia has given advice to their people to leave Lebanon.

July 2012

Brent Crude Oil has recorded strong gains during July trading back above \$100/bbl after falling to an 18-month low the previous month. The gains are a result of escalating tensions between the US and Iran and the threat of possible supply disruption through the key shipping lane in the Middle East. Positive economic news helped lift prices as the European Central Bank slashed borrowing costs and the Bank of England announced another £50bn to support the UK economy. These measures would encourage demand for fuel across Europe and China's economies.

June 2012

The benchmark front month Brent Crude Oil contract continued its downward trajectory driven by high Crude stocks in the US, ongoing concerns on Euro zone economic activity and OPEC (Organization of the Petroleum Exporting Countries) keeping production quotas at record high causing a glut in supply across the global market. Brent hit a low of \$89.67/bbl towards the end of June, which was its lowest closing price assessment for 18-months.

May 2012

During May Brent hit its lowest closing price for 2012 driven mainly by political action within the Euro zone and reduced anxiety of supply disruption. The Socialist victory in the French presidential election and Greece's fragmented result refreshed worries about the Euro zone debt crisis and pushed Brent prices lower. Additionally, eased fears of supply disruption when the talks between Iran and the West restarted supported the losses.

Coal

Movements in the coal market

Forward coal 1 year



Change in prices from May 2012 – May 2013

The average forward coal 1 year contract price in May 2013 was approximately 11% lower than in May 2012.

Monthly movement

Forward coal 1 year contract prices decreased by approximately 2% over the course of May 2013, trading between a range of \$89.89 - \$93.53 / tonne

Month by month review

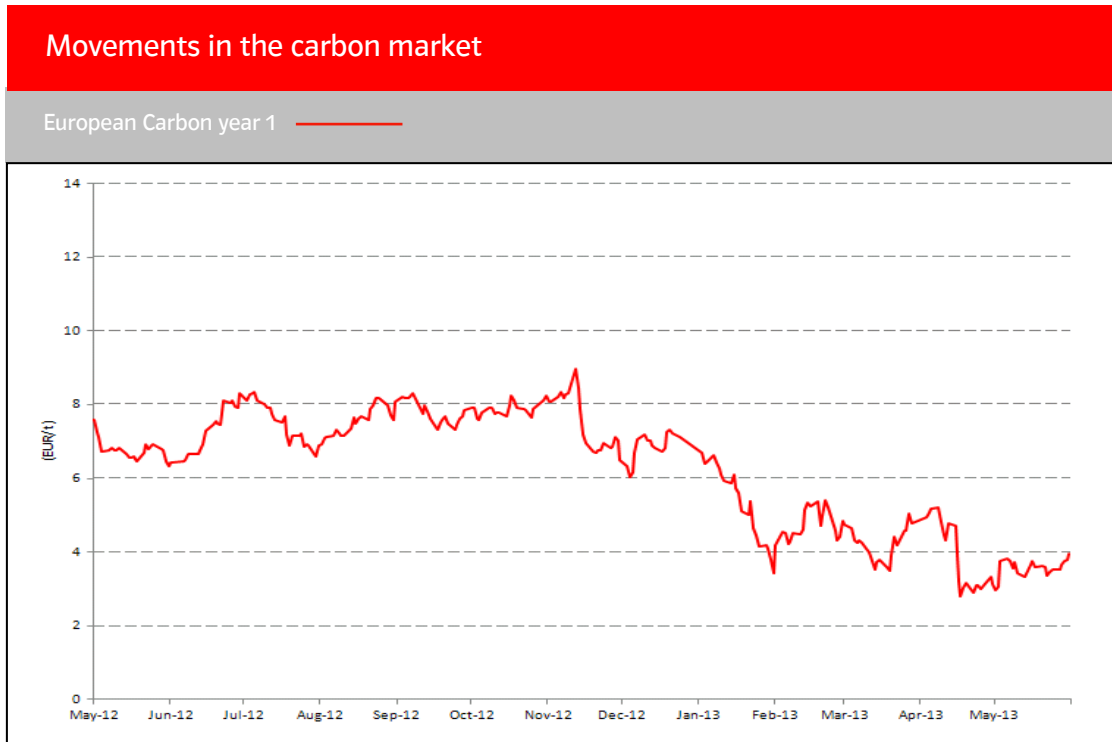
May 2013	API 2 front month future contract has been falling in May as continued low oil prices and signs that the Chinese economy is losing momentum from Q1 2013 has reduced the expected fuel demand outlook, adding downward pressure on prices.
April 2013	Coal prices are continuing to show weakness in line with oil and the deteriorating macro environment.
March 2013	European coal prices remained weak as on-going ample supply met a lack of demand. The current price level is the lowest seen in 3-years. Positive signals from China had no impact on European benchmark prices.
February 2013	Coal prices continued to trade within a tight range and seemed unwilling to go below what seems to be a natural floor. A strike at a Columbian coal mine failed to impact the market.
January 2013	Healthy stocks and scheduled supply together with falling German power prices weighed down on the European benchmark coal price.
December 2012	The picture in the coal market remains unchanged with low demand from China and rising stocks in China's main ports and low demand from India. The European benchmark coal price shed value with weaker power prices across Germany and other European markets.
November 2012	Global coal markets are still fundamentally oversupplied since the US began commercial extraction of shale gas and flooded the European market with cheap coal. Prices have been trading at what is known as a "floor price" for a number of months, and the increases recorded during November were not expected to have much of an impact of UK power prices. Prices started the month very low and despite gaining by 5% are still at record lows.
October 2012	European Coal prices continued to decline throughout October with healthy supply and weak demand. Traders noted that worldwide exchanged volumes were poor.
September 2012	The long-term oversupply of Coal to major consumers continues to weigh on prices. The benchmark European Coal price fell by around 3% over September (01 – 24 Sept) continuing its recent decline. Coal is currently trading around \$30/tonne (22%) less than in Sept-2011 and adding to the over-supply are the US who are exporting more coal to the global market since the discovery of Shale Gas, which has started to dominate in terms of the fuel used for their domestic power generation. Shale Gas produces less CO2 therefore is helping to meet emissions targets.
August 2012	International coal prices continued their recent bearish trend after news that the strike by workers at Colombian rail operator Fenoco is ending.
July 2012	Coal prices edged higher moving up with gains in oil and carbon.
June 2012	International coal prices came under pressure because of persistent economic concerns. Especially the significant decline in oil prices coupled

with weak economic data in the EU and the US had influence on the energy complex.

May 2012

Persistent coal oversupplies and revived bearish macro sentiment led to further losses in coal prices.

Carbon



Carbon overview

Carbon permits have become an increasingly important driver for the price of UK power as more than 70% of UK power stations use coal or gas.

Burning coal and gas releases harmful emissions into the environment. Higher generation means more carbon emissions are produced. Therefore the cost of 'clean' power also takes into account the cost of carbon permits traded under the EU scheme.

Cost of producing 'clean' power = price of generation fuel + price of carbon

Burning coal generates more than twice as much carbon as burning gas, hence if the price of carbon increases, the effects are felt more strongly in coal generation. Carbon price therefore directly affects the demand for both gas and coal as a generation fuel.

Change in prices from May 2012 – May 2013

The average European carbon front year contract price in May 2013 was approximately 47% lower than in May 2012.

Monthly movement

European carbon front year contract prices decreased by approximately 33% over the course of May 2013, trading between a range of €2.97 - €3.94 / tonne

Month by month review

May 2013	EUA 2013 price has recovered some losses from the price crash in mid-April, this has been fuelled by rising European power prices as a result of a colder than seasonal normal May & optimism that the back-loading proposal may be amended provided some upward support on prices (a proposal to restrict the number of available emission permits and re-introduce at a later date in an attempt to tackle the current oversupply issue was rejected in April)
April 2013	Carbon prices crashed on the back of the EU vote against backloading.
March 2013	Carbon prices were initially down on the back of increasing auction volumes and Germany's indecision on back-loading. A slight recovery was posted when some states showed support for the carbon back-loading scheme.
February 2013	Carbon prices posted a slight recovery as plans to remove a surplus amount of credits from the market were backed. Once the dust settled prices continued to trade sideways.
January 2013	Carbon prices marked new record lows, driven by new auctions and low German power prices. The market plummeted and traded at levels around €4/tonne.
December 2012	Carbon prices posted a slight fight back after a devastating November, however, no bullish news meant that the fundamental situation was largely unchanged.
November 2012	Fundamentals are unchanged in the European carbon market with an over-supply of permits still in play. A scheme to "set-aside" some 900m permits to buoy the situation failed to inspire trades and had little impact on power prices. Carbon traded down by 15% over the course of the month.
October 2012	European Carbon prices hit a 5-week high towards the end of October, breaking out of its recent sideways trend. The reason for the gains was attributed to a temporary supply issue, as auctions of new emissions allowances have been delayed.
September 2012	Carbon continued to trade within a tight range of less than €1 hardly testing any upside. Analysts suggest that high levels of Coal burn has increased emissions across the EU, however a glut of allowances due to slow industrial consumption has made burning cheap coal a commercial option.
August 2012	The carbon market has been supported in recent weeks by optimism that the EU will move next month to withdraw allowances from the market and growing optimism in energy markets about an upcoming effort by large EU nations to tackle the Euro zone debt crisis.
July 2012	Carbon prices dropped sharply, as reports circulated that the plan to remove excess carbon allowances from the market was proving to be more complicated than originally presumed. This led to market back into a position where CO2 permits are grossly over-supplied and the price subsequently dropped.
June 2012	Emissions prices have been taking direction from Euro zone developments over the past month, in particular the Euro/Dollar exchange rate, with the Dec-12 contract dropping as low as 6.17 EUR/t as the Euro fell against the dollar. Gains were recorded at the end of June due to a move to set-aside excess carbon permits to help support the market.
May 2012	Carbon prices were driven lower by plummeting oil prices last week. Uncertainty about the future of the Euro zone following the Greek and French election results added to bearish sentiment.

Key dates

September 10/11 2013

Energy Event 2013, NEC

Useful web links

For more information about E.ON, the following links may be useful:

Business Energy	eonenergy.com/business
Business Energy Connections	eonenergy.com/bec
Sustainable Energy	eonenergy.com/sustainable
Carbon Reduction Commitment	eonenergy.com/crc

The following links provide further information on the energy industry:

Defra	defra.gov.uk
The Department for Business, Enterprise and Regulatory Reform (BERR) formally DTI	berr.gov.uk
The Department of Energy and Climate Change (DECC)	decc.gov.uk
Health and Safety Executive	hse.gov.uk
National Grid	nationalgrid.com
Met Office	metoffice.gov.uk
Ofgem	ofgem.gov.uk
Environment Agency	environment—agency.gov.uk
Consumer Focus formally Energywatch	consumerfocus.org.uk
The Carbon Trust	thecarbontrust.co.uk
The Energy Institute	energyinst.org.uk
The Energy Saving Trust	est.org.uk
The National Energy Foundation	nef.org.uk
Petroleum Economist	petroleum-economist.com
Live oil prices	thisismoney.co.uk/oil-price

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